QUICK GUIDE

RADICAL CHANGE is coming to your industry.
How will you lead?
DISRUPTIVE THREATS are all around, in every industry, threatening to unseat leading incumbents—even those that consider themselves “safe.” Research shows that corporate lifespans are shrinking, and that half of today’s S&P 500 will be replaced over the next 10 years.

But disruptive change can also present the biggest opportunity of a lifetime, all depending on how a company responds. It is not taking a “wait-and-see” approach. Nor is it doubling down on the traditional business.

Rather, the right response is a two-track process to make today’s business more resilient while creating tomorrow’s new growth business.

This is Dual Transformation, and it is the leadership challenge of our time.

TRANSFORMATION:
A fundamental change in form or substance, like liquid becoming gas or a caterpillar becoming a butterfly.

DUAL:
Not a single monolithic process, but rather, two simultaneous transformations that reinforce each other.
“CREATING NEW BUSINESS MODELS IS A LEADERSHIP CHALLENGE. In order to create those new businesses in any organization, I don’t care how old it is, you have to start to look at what is going to be the operating model that’s going to make that new business commercially viable and sustainable for the long run.”

MARK BERTOLINI, CEO, AETNA
Coming soon to an industry near you... Disruption unfolding right now, today, even if many of us cannot actually see it:

**Insurance.** Driverless cars could be as revolutionary to the insurance business as they are to automakers. Companies like Geico and Progressive make most of their money from auto insurance. What happens to their business models when there are no more car accidents?

**Shipping.** 3D printers make local, small-scale manufacturing much more cost effective. If you are in the business of shipping millions of tons of finished, manufactured goods over long distances, what happens to your business model?

**Medical Testing.** Implantable medical devices could one day monitor bodily systems and help stop disease processes in their tracks. If you are in the business of testing, imaging, or delivering drug cures, will you still have a market?

**Consumer Banking.** Telecom companies are offering mobile payments. E-commerce companies are offering escrow-type services. Even Starbucks held more than $1 billion in prepaid card assets as of 2016. How soon before consumers cut the cord with banks, like they are doing with cable TV companies?
It’s a once-in-a-lifetime growth opportunity for established leaders. But it can also push you off your perch—and off a competitive cliff.

Holding onto your lead in a fast-changing market, and building a brand new growth engine for the company, requires foresight, courage and commitment. Many a leader has missed the signals, reacted too late, and succumbed to market-changing competition.

**Are you seeing any of these warning signs?**

- Changing customer habits
- Declining customer loyalty
- More venture investment in your industry
- Pressure on profit margins
- New entrants succeeding with a different business model

“**DISRUPTION**” = SIMPLER, MORE AFFORDABLE, MORE ACCESSIBLE SOLUTIONS THAT BREAK OPEN HISTORICALLY CONSTRAINED MARKETS, BRINGING BENEFITS TO MILLIONS, IF NOT BILLIONS, OF PEOPLE.

**CHANGES LIKE THESE MAY SIGNAL A COMING DISRUPTION. HOW WILL YOU HANDLE IT?**
Consider the “car” business, which may become unrecognizable—and sooner than you think.

It might not feel that way, as you are bombarded with car ads on TV every night—or as you sit in traffic, amid a sea of vehicles, all with human drivers.

But disruptive change is already here and virtually everything about the “car” business is changing.

• Autonomous vehicles—no steering wheel, no pedals, and no driver—are reshaping the meaning of “mobility.”

• Car-sharing services like Zipcar and ride-sharing services like Uber are completely changing the need for “ownership.”

• Connected vehicles and smart mobility services are changing the revenue model for global automakers.

• Industries adjacent to the car business (including sensors, batteries, and software) are grasping for advantage as the business changes beneath their feet.
Ford Motor Company:  
Transforming itself to create the future, today

Ford is launching a total transformation of the company—
toward a “mobility services” business model. Will Ford contin-
ue to make “cars”? Of course. Will those cars look and feel like
the ones Ford has made for decades? In some ways yes, but
they will also be radically different.

The company has launched new services like SYNC3,
advanced vehicle connectivity, as well as an entire “Smart
Mobility” program, which includes 25 mobility research
initiatives around the world in areas like big data collection
and analysis, fleet management, and shared transport.

Ford is not waiting for the future to arrive. Ford is actively
shaping and designing the future today.

By the time that future is visible to the rest of us, Ford will
probably be a different company, with a transformed business
model, aiming to advance its leadership position in a radically
changed market.
SO WHAT IS DUAL TRANSFORMATION?

No matter where disruption comes from, or what forces are driving it, the best way to fend off challengers and dominate new growth markets is through Dual Transformation:

Reposition today’s business to maximize its resilience
(Transformation A)

Create tomorrow’s growth engine
(Transformation B)

Use unique skills and resources that give you an advantage
(Capabilities Link)

Reposition Today Use Unique Assets Create Tomorrow
Many successful businesses face a growth challenge in the core markets they currently dominate. At the same time, upstart challengers may be nipping at their heels with cheaper, easier, more accessible solutions. What’s the answer? Preserve your leadership position by:

1. **Identifying** the unique job to be done you can continue to solve for your current customers—and what no longer matters as much.

2. **Innovating** your business model to deliver against the job.

3. **Determining** and monitoring new metrics.

4. **Implementing** aggressively.

“For us, the transformation A is actually even more important, because we have to get our core right to earn the right to do transformation B ... People seem to have the impression that transforming the core is less dramatic than building a new business. That’s a misperception.”

*CHUA SOCK KOONG, GROUP CHIEF EXECUTIVE OFFICER, SINGTEL*
TRANFORMATION B:
Creating a powerful new growth engine

For successful companies, future growth often has to be found outside their core markets. But looking to new markets, new customers, and new business models is a big strategic challenge that requires new approaches and capabilities. The new business will look very different from today’s. Here’s how to pursue B:

• **Identify constrained markets**, a new problem that a significant group of customers wants to solve but can’t, because of a lack of specialized skills, insufficient wealth, or having to travel to inconvenient/inaccessible locations.

• **Break down the “consumption barriers”** that keep cheaper, more convenient solutions out of reach.

• **Iteratively develop** the new business model required to serve the new market and power the future.

• **Use partnerships, acquisitions, and new hires** to succeed against a new competitive set.

“Lots of companies don’t succeed over time. What do they fundamentally do wrong? They usually miss the future.”

LARRY PAGE, CO-FOUNDER OF GOOGLE
The most difficult part of a Dual Transformation is the wise use of the company’s skills and resources: leveraging valuable assets like brand, distribution, and accumulated know-how to build the new growth engine the company needs. This “capabilities link” is a bridge from the company of today to the growth leader of tomorrow. The most helpful principles in managing your capabilities link:

- **Stock selectively.** Most core capabilities won’t help the new growth initiative. Use only those that truly bring a competitive advantage to the new venture.

- **Manage strategically.** Develop systems, create formal exchange teams, and institute transfer pricing to ward off the “innovator’s dilemma” (privileging today’s business over creating the future).

- **Arbitrate actively.** Top leadership needs to actively arbitrate the interface between A and B, with a bias to protecting transformation B.

**INNOVATION ISN’T JUST A GAME FOR STARTUPS. INCUMBENTS CAN IN FACT INNOVATE WHEN THEY COMBINE THEIR ASSETS OF SCALE WITH ENTREPRENEURIAL ENERGY.**
Adobe and the A-B-Cs of Digital Disruption

Between 1982 and 2007, Adobe’s Photoshop and Illustrator programs grew to dominate creative businesses like advertising and marketing. And its “PDF” software was ubiquitous the world over. But in its core markets, Adobe lacked a path to significant growth, and disruption was already well underway.

Cloud-based “software-as-a-service” (SaaS) was accelerating rapidly as early as 2004, as Salesforce.com pioneered the business model. SaaS models offered customers greater flexibility and affordability. Then came a catalyst: in 2008 the Great Recession pushed corporate customers toward less expensive “asset light” solutions.
TRANSFORMATION A:

- Adobe launched Photoshop Express in 2008 to test the SaaS market.
- In 2011, it introduced the Creative Cloud, a new subscription-based business model that offered greater revenue predictability, with lower production cost.
- Adobe stopped shipping physical media in 2013; cloud-based products comprised roughly one-third of revenue by 2014; company profitability was 20% above pre-recession levels.

TRANSFORMATION B:

- Little growth remained in Adobe’s core (i.e., mature) creative markets.
- Its software played a key role in content creation, but no role in the rest of the marketing value chain.
- Adobe launched a targeted suite of digital marketing solutions—breaking an under-served market wide open.
- Adobe acquired several leading web analytics businesses—e.g., Omniture, Day Software and Efficient Frontier.

CAPABILITIES LINK:

- Leveraged brand, talent and distribution.

DUAL TRANSFORMATION IS A JOURNEY. IT TOOK 7 YEARS FOR DIGITAL MARKETING AT ADOBE TO BECOME ONE-THIRD AS BIG AS ITS TRADITIONAL BUSINESS.
Leaders need to demonstrate four behaviors to maximize the chance that Dual Transformation will succeed.

1. THE COURAGE TO CHOOSE

• Evidence that disruption is underway is always opaque.
• By the time it is crystal clear, it’s too late to do anything about it.
• Leaders need to have the courage to choose a new path before convincing data has arrived.
The Netflix of today bears little resemblance to the company Reed Hastings cofounded 20 years ago. Today’s Emmy-winning and Oscar-nominated content creator and distributor was a simple DVD-by-mail company. But Hastings refused to get comfortable with the company’s leadership position and had the courage to choose new paths, transforming the company even when it looked like he didn’t need to.

Blockbuster declined to purchase the company in 2000. In the subsequent 15 years Netflix made a series of bold moves...

• Developed a “recommendation engine” that predicted customer preferences—now a key element of the Netflix experience.

• In 2008, launched a streaming business that added to its advantage over brick-and-mortar stores.

• Split the streaming and mail offerings, charging separate fees for each.

• Added original content in 2013 with a long-term goal of delivering 50% original content on its platform—spending nearly $6 billion in 2017.

Within five years of launching the streaming service, revenues hit $6 billion—ten times the revenues of the DVD-by-mail business.

But competition is intensifying, with Amazon expected to spend $7 billion on original content in 2017. Hastings and his team need to continue their track record of courageous choices if they want to remain on top.

“Most companies that are great at something—like AOL dialup or Borders bookstores—do not become great at the new things people want, because they are afraid to hurt their initial business.”

REED HASTINGS, CEO OF NETFLIX
2. THE CLARITY TO FOCUS

• Bring clarity to today’s strategic choices (what to do and what not to do).

• Don’t project today’s business into the future—a “present forward” mindset.

• Ask what the future will look like, and how you will get there—a “future back” mindset.

• Invest to own the future, rather than be disrupted by it.
Aetna

It’s no secret that American health care is in the midst of a radical transformation. Every aspect of the insurance business is changing: government policy, public and private funding mechanisms, technology, R&D, patient advocacy, the use of “big data,” and so on. Aetna’s goal is to remain ahead of the curve and create tomorrow’s healthcare system, today, by:

• Becoming the “Intel inside” of provider networks and moving into healthcare IT via the purchase of Healthagen.

• Moving from the business of pricing risk to the business of helping people manage their health.

• Improving affordability and quality by enabling providers to practice population health management.

• Helping providers move their core business model toward fee-for-value, instead of fee-for-service. (By 2020 Aetna expects that 75 percent of its members will be under value-based contracts.)

The disruptive forces driving change in the health care industry promise long-term pain for those who try desperately to cling to yesterday’s model. Aetna is working hard to line up the right resources and get organizational alignment, to keep the company ahead of fundamental industry change.

“The CEO’s responsibility is to create a stark reality of what the future holds, and then to begin to build the plans for the organization to meet those realities.”

MARK BERTOLINI, CEO OF AETNA
3. THE CURIOSITY TO EXPLORE

• Leaders face two fundamental challenges: exploit what you have while exploring and developing what you don’t.

• Predictability helps with exploitation, and keeps the core business running. But predictability can choke off exploration.

• Companies need to boost their curiosity quotient by creating safe spaces for exploration, exposing leadership to new stimuli, and incorporating curiosity in day-to-day routines.
**Singtel**

Singtel is Southeast Asia’s largest telecommunications company, with more than 600 million subscribers. A shift from voice calls to messaging and data services was a boon for new competitors like Skype, WhatsApp, and Facebook—giving telecoms nightmares about becoming a “dumb pipe,” bearing all the network costs and seeing the returns go to high-tech upstarts. From 2010 to 2015, Singtel successfully branched into new markets and strengthened its culture of innovation by splicing curiosity into its corporate DNA. Specifically:

- Singtel started an investment vehicle (Singtel “Innov8”) to invest in dozens of startups and connect to the venture ecosystem.
- Company leaders traveled to far-flung places such as Tel Aviv and Silicon Valley—not to visit Singtel operations, but to get firsthand exposure to entrepreneurial ecosystems.
- It created a new arm called Group D!gital L!fe designed to incubate and build new growth businesses, and committed to spend up to $2 billion to acquire new digital businesses.

As Group CEO Chua Sock Koong wrote in the company’s 2012 annual report, her goal is to shift the company’s collective mindset “away from failure aversion to one of constant experimentation.”

“**The most important thing is to be open to new ideas. If you are very successful in what you have been doing, it is sometimes even more difficult to want to change. In our case, if we were not open to new ideas, such as going overseas or creating new digital businesses, we’d be a lot smaller than we are today.**”

-Chua Sock Koong, Group Chief Executive Officer, Singtel
Transformation is the toughest challenge a leader will ever face. The biggest obstacle to transformation is the organization itself, and leaders will encounter three categories of crisis:

- **Crises of commitment**: Does the historical core have a future? Are you serious about investing in new growth? What will you do when a hyped new growth effort stumbles?

- **Crises of conflict**: Who do you back in the battle between today and tomorrow? Who gets dibs on scarce resources? What happens when key stakeholders complain that progress is too slow?

- **Crises of identity**: Who are you? Who do you hope to become? What does it mean when the answer to those two questions is meaningfully different?

Leaders should prepare for these crisis by repeating the mantra “A does A, B does B” and grounding efforts in a motivating purpose.
Deseret Media

When a wave of disruption hit the newspaper business, *The Deseret News* was hit particularly hard, losing 30% of its print display advertising revenue and 70% of its classified advertising revenue in just two years. Its response, however, was radically different from most competitors. In 2010, the CEO of the newspaper’s parent, Deseret Media, launched a dual transformation that not only revitalized the legacy operation but also created online platforms and digital marketplaces to drive significant new growth. Here’s how:

• The core business moved away from “commodity journalism” and redirected its editorial resources toward six areas where Deseret could excel nationally, such as family and faith in the community.

• New digital marketplaces, such as the world’s largest collection of mom-focused communities, shared brands, content, and a few other resources with the core business, but largely functioned autonomously. Reflecting Gilbert’s mantra that “a digital buyer needs a digital seller,” the B business had a completely separate sales force from the A legacy paper.

• Gilbert showed commitment to driving lasting change even as the new digital business was hitting its stride. Deseret continued to treat digital as the underdog in the portfolio, protecting it from the pull of the legacy business.

• By 2015, when the newspaper industry was still in free fall, *The Deseret News* and Deseret Digital powered one of the fastest growing news publishers in America, with net income up by almost 25% from 2010.

"From a leadership standpoint, it puts a lot of responsibility on the CEO: if you’re excited about B, you want to talk about it in every setting you’re in, but you always need to reinforce the importance of A, so that the A organization can hear that and be motivated by that."

CLARK GILBERT, FORMER CEO, DESERET MEDIA
Johnson & Johnson and the A-B-Cs of Paradigm Shift

In 1961: Johnson & Johnson acquired Belgian pharmaceutical maker Janssen, driving strong growth at J&J for decades. By the late 2000s:

• Patent expirations led to declining sales.

• The development pipeline was looking bare.

• Acquisitions and restructurings left a decentralized operation with duplicative, subscale efforts.

• The philosophy of investing in lots of opportunities, hoping for good ideas to bubble up, had left it spread too thin.
TRANSFORMATION A:

• J&J centralized pharma operations under Janssen.
• Narrowed the R&D portfolio from 33 disease areas to 13.
• Dispensed with the “not invented here” bias; partnered with outside institutions.
• Developed “disease strongholds” and amassed industry-leading expertise.

TRANSFORMATION B:

• Adopted a new focus: stopping the causes of disease (i.e., “disease interception”).
• A new “accelerator” unit developed treatments to stop disease-causing processes (e.g., juvenile diabetes).
• New disease intervention models will require substantial business model innovation: e.g., different diagnostic, consumer products and other interventions that are very different from the traditional drug model.

CAPABILITIES LINK:

• Janssen’s scientific expertise, the access of its sales force, the door-opening power of its global brand, and its purpose and mission.
The “gale of creative destruction” that economist Joseph Schumpeter described has never blown more fiercely, and it threatens incumbents in nearly every industry. But leaders can tap into the underlying forces behind these kinds of changes to power new waves of growth for their companies when they:

A. See the gale coming early enough to build a protective barrier around today’s business.

B. Build a wind turbine to harness the energy to create new growth.

C. Fight unfairly by leveraging your company’s difficult-to-replicate assets.

DUAL TRANSFORMATION IS THE GREATEST CHALLENGE A LEADERSHIP TEAM WILL EVER FACE.

IT IS ALSO THE GREATEST OPPORTUNITY A LEADERSHIP TEAM WILL ENCOUNTER.
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ABOUT INNOSIGHT

Innosight, the strategy and innovation business of global professional services firm Huron, helps organizations design and create the future, instead of being disrupted by it. Innosight is the leading authority on disruptive innovation and strategic transformation. The company collaborates with clients across a range of industries to identify new growth opportunities, build new ventures and capabilities, and accelerate organizational change. Get in touch with us at inquiries@innosight.com.

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